

# Sustainability and Materiality Assessments that Matter

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*Lilly*

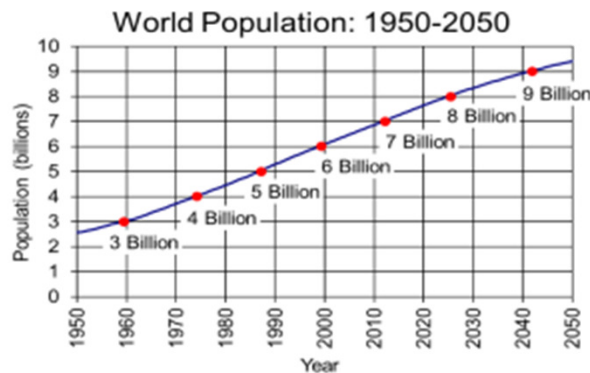
# Review – What is Sustainability

## Organizations use different words

- Sustainability
- Sustainable Development
- Corporate Social Responsibility
- Corporate/Global Citizenship

...that essentially mean the same thing – addressing the “triple bottom line of... “

- Economic growth
- Environmental health
- Social progress



Source: U.S. Census Bureau, International Data Base, July 2015 Update.



Increasing World Population and Consumption

Declining Natural Systems and Concern for the Human Condition

# Who Defines Sustainability?

## Key organizations define the scope of provide frameworks

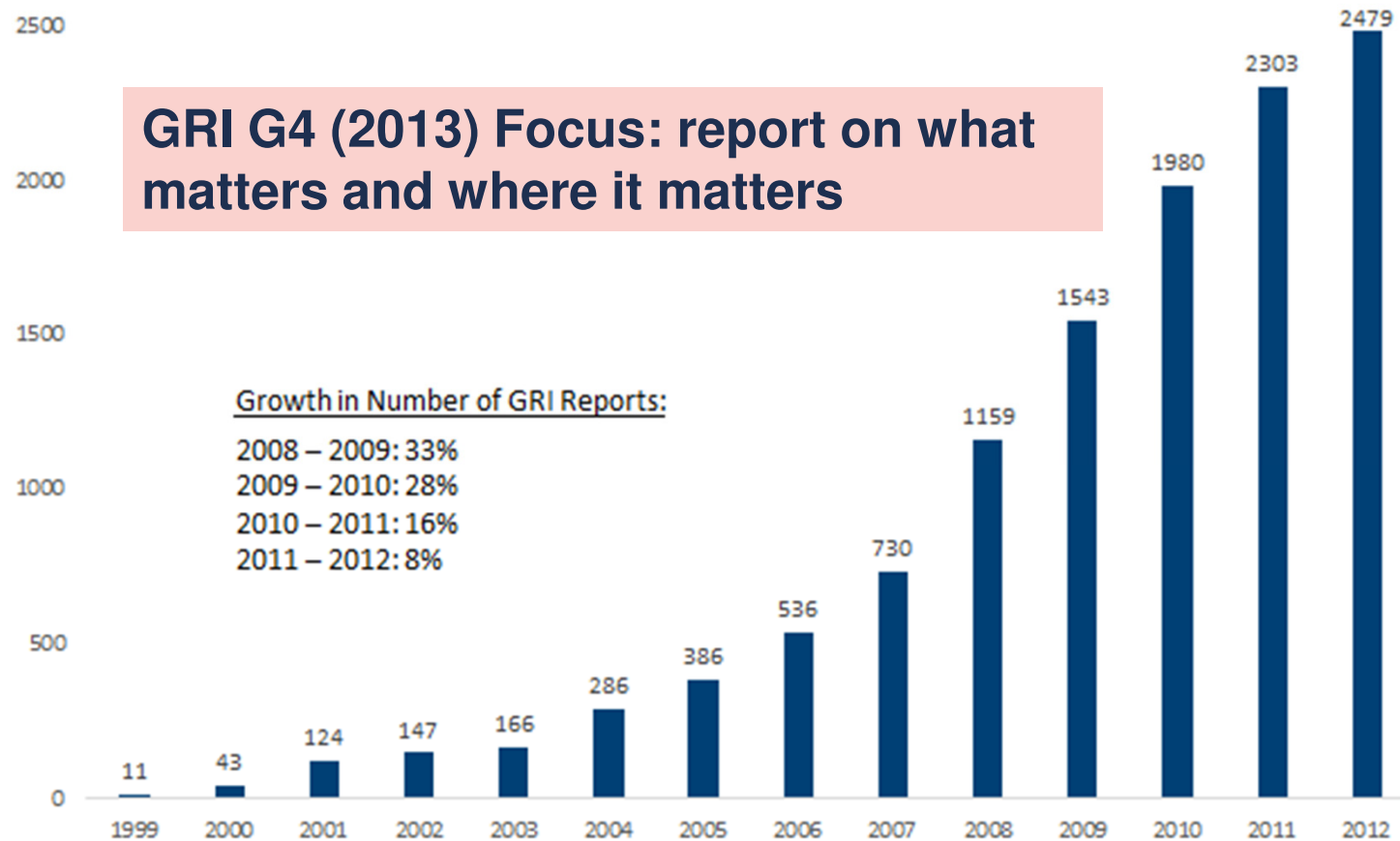
- **Global Reporting Initiative (GRI)**  
Most widely used guidelines for sustainability reporting, includes required metrics; instrumental in defining scope and issues
- **ISO 26000**  
Guidance describes key principles and issues, provides guidance on implementation



## Key organizations evaluate based on unique methodologies

- **Dow Jones Sustainability Group FTSE4Good**  
Indices of top sustainability performers
- **CDP Climate Change & Water**  
Supported by 822 institutional investors, highly respected evaluation scheme. Assesses disclosure and management
- **Other Raters/Rankers**  
Bloomberg, Newsweek Green Rankings

# Who is reporting?



\* Data from the Sustainability Disclosure Database as at 1 August 2013

# What are they talking about and why?

## Environmental Impacts

- Energy and GHG emissions
- Air emissions
- Climate change adaptation
- Water and PiE
- Waste
- Logistics & Transportation
- Resource consumption
- **Across the value chain**

## Health & Safety

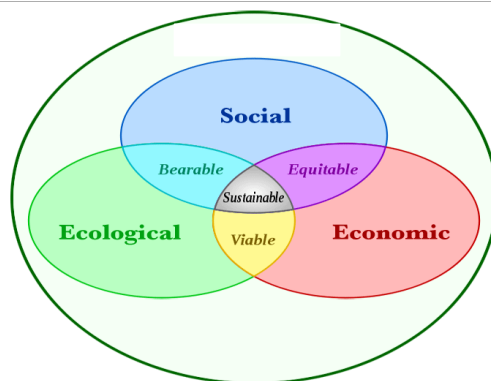
- Risk and hazard management
- Emergency and crisis management
- Training and awareness
- Employee wellness
- Workplace safety

## Impact on Communities

- Community development
  - Fostering local suppliers
  - Economic diversification
- Community investment
  - Economic contributions
  - Grants and Charity
- Transparency in governments payments

## Customer Stewardship

- Customer complaints
- Ethical sales & marketing
- Customer privacy
- Customer awareness
- Contribution to customer' sustainability
- Innovative partnerships



## Responsible Sourcing

- Responsible procurement (social and environmental aspects)
- Supplier sustainability performance
- Supply chain risk and risk management
- Suppliers evaluation and audit programs

## Product Stewardship

- Access
- Product regulatory compliance
- Ethical pricing practices
- Energy and material intensity
- Product labeling

## Workforce Practices

- Training & development
- Career and performance management
- Diversity and inclusion
- Labor practices and labor relations
- Human rights
- Workplace security
- Fair pay

## Governance

- Board and management oversight
- Executive remuneration
- Business strategy alignment
- Risk management
- Management systems
- Stakeholder engagement
- Transparency and reporting

# Drivers – Risk Management

THE PRICE OF CLIMATE CHANGE  
GLOBAL WARMING'S IMPACT ON PORTFOLIOS  
OCTOBER 2015

**BLACKROCK®**

*“This is not just about saving the planet or feeling good. We view ESG excellence as a mark of operational and management quality. It means responsiveness to evolving market trends, resilience to regulatory risk, and more engaged and productive employees.”*

- With \$4.6T in assets, BlackRock is the world's largest investor



Concern over Pharmaceuticals in the Environment (water bodies) is driving government, investor, and NGO scrutiny and action – on supplier oversight, product tack-back and effluent monitoring and limits



# Drivers – Risk Management

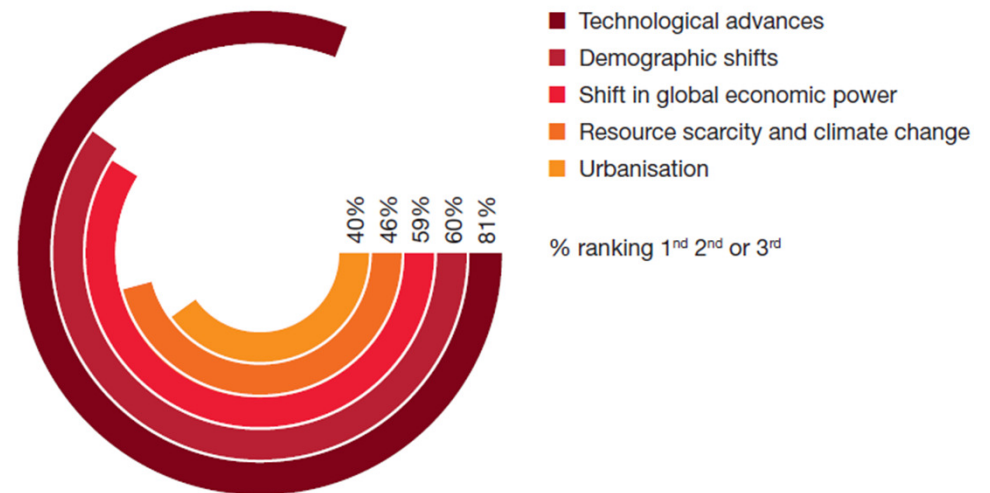
## DISASTER PLANNING

Top 10 global risks: likelihood and impact, 2015

### MOST LIKELY

1. Interstate conflict
2. Extreme weather events
3. Failure of national governance
4. State collapse or crisis
5. Unemployment or underemployment
6. Natural catastrophes
7. Failure of climate change adaptation
8. Water crises
9. Data fraud or theft
10. Cyber attacks

**Figure 1** Megatrends transforming business



Base: All respondents (1,344)  
Source: PwC 17th Annual Global CEO Survey

Sources: BlackRock Investment Institute and World Economic Forum, September 2015.

Notes: the risk rankings come from the World Economic Forum (WEF)'s latest Global Risks Perception Survey, which polled 900 WEF stakeholders in the summer of 2014. Climate-related risks are highlighted.

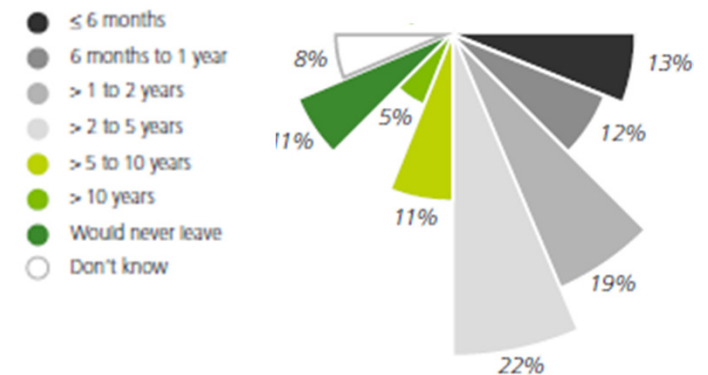
# Drivers – Recruitment/Retention

## Millennials will be 75% of the workforce by 2025

- More than 50% would take a pay cut to find work that matches their personal values
- 56% have “ruled out ever working for a particular organization because of its values or standard of conduct.”
- 90% want to use their skills for good

## 2 in 3 expect to leave their employer by 2020

Percentage who expect to leave in the next...



Values they believe support long-term business success





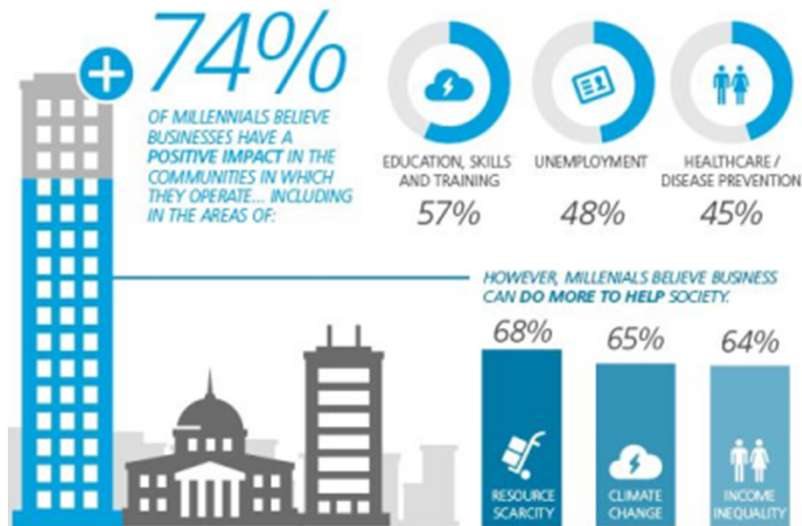
# More on Millennials

CEO CHALLENGE 2016

## 6 Big-Picture Trends

- Overcoming a critical shortage of talent globally; There is a growing understanding that the workforce is an asset, not an expense, and it must be managed with the same rigor as any other asset

From Deloitte's 2014 survey:



THE CONFERENCE BOARD  
Trusted Insights for Business Worldwide



Learn more at [www.deloitte.com/MillennialSurvey](http://www.deloitte.com/MillennialSurvey)

# Drivers – Skilled and Savvy Advocates

Understand your supply chain risks.



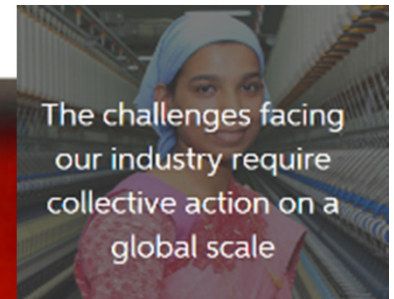
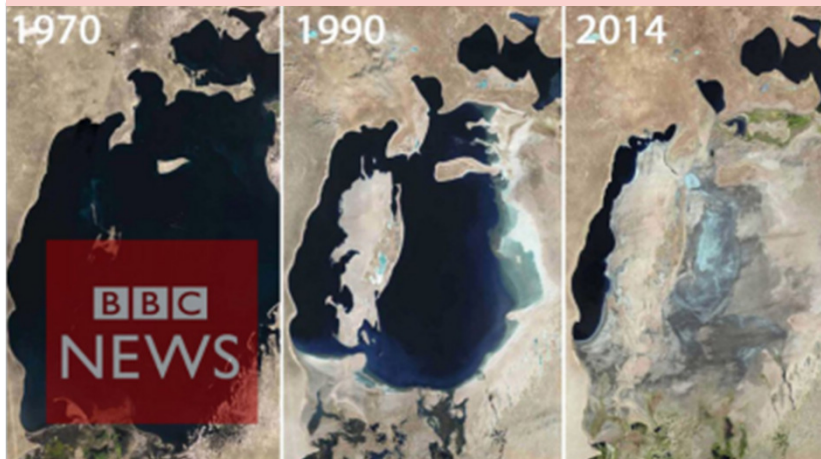
Source: TechRepublic, March 2014

# Drivers – Evolving Expectations

“This is beginning to matter to people that matter to us.”

- Stakeholders up and down the value chain exerting pressure
- Proactive, comprehensive responses have more credibility
- Better to engage in good faith than have a mandatory response crafted for you

Ural “Sea” – Cotton Farming Impact




Transforming the  
apparel, footwear,  
and home textiles  
industry through:  
**system-wide  
collaboration**



# Drivers – Evolving Issues

## Example: Food & Food Security





# **Materiality:**

## **Reporting (and working) on What Matters**

# GRI G4 and Materiality

**Materiality is foundational to creating a focused, relevant, and credible report.**

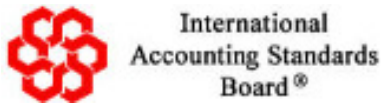
- **Core Report**  
addresses DMA and at least one indicator from each material topic
- **Comprehensive Report**  
addresses DMA and all relevant indicators





# What is a material issue?

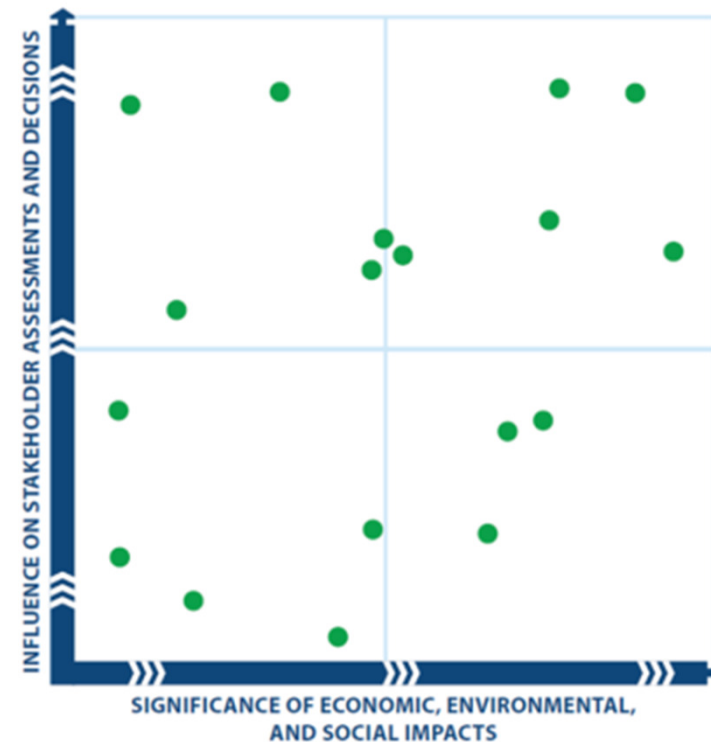
An issue is material if related information could be used by stakeholders to make decisions that may impact the company – generating risk or opportunity.



- **International Accounting Standards Board** – its omission or misstatement in financial statements could influence the decisions of users.
- **SASB** – the omission of related disclosures would be viewed by the investor as changing their perception based on the “total mix” of disclosures made.
- **GRI** – issue is related to a company’s significant economic, environmental, and social impacts; or could influence the decisions of its stakeholders.

# The Materiality Matrix

Material issues are those that would impact a stakeholder's decisions regarding an organization (interaction, opinion, actions – like employment).

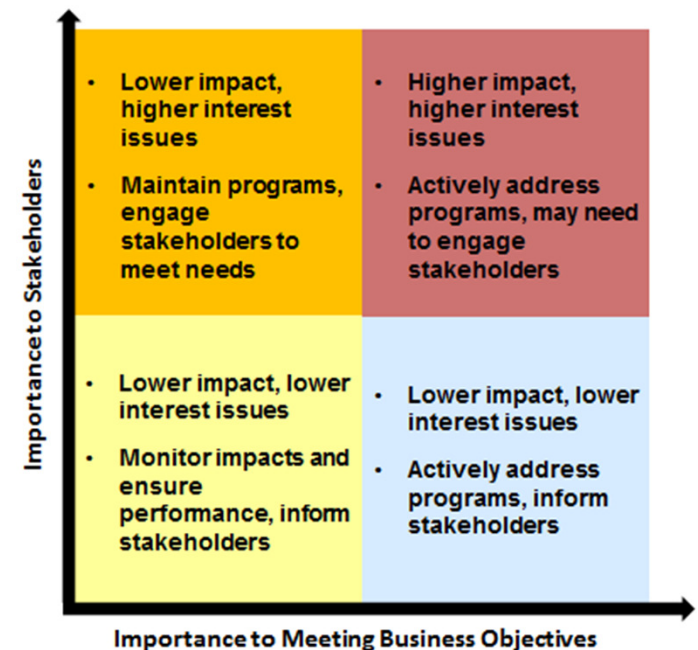




# Beyond the Bubbles

# Materiality Assessment Objectives

- Identify range relevant issues, including emerging issues
- Engage a broad swath of internal decision makers – across business units, functions, and regions – on their strategies and challenges and the intersection/implications of issues
- Inform or validate strategy, programs, approaches, and priorities
- Identify new opportunities and unknown exposures
- Refresh internal engagement strategy



# It is not safe to assume....

- It shows up a lot in articles...
  - Mainstream media or advocate blogs, across media?
- It's pretty clear to us that people are concerned about – its clear to anyone...
  - Are those who are making the most noise really those that can impact your business, on whom and how are advocates exerting influence?
- Do you know how your most valued stakeholders prioritize their own issues
  - How are their concerns evolving and why
- Are you missing opportunities and not understanding the scope of potential threats

# Make it Work...Make it Useful

A materiality assessment of sustainability issues that includes internal and external engagement with key stakeholders.

- Use results to serve broader functional strategies and encourage collaboration
- Ensure programs are informed by a solid understanding of our most material issues and therefore providing the most value
  - With regard to our business objectives
  - With regard to stakeholder concerns
- The assessment ensures the optimum effectiveness of current programs – and identifies needed enhancements



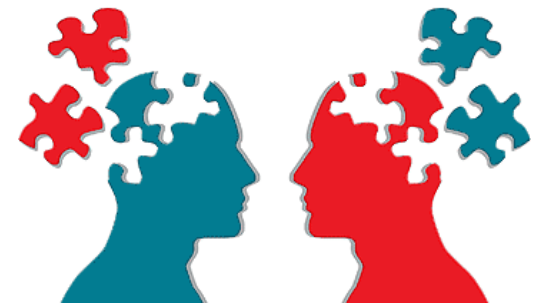
Have real conversations!





# Questions to ask - externally

- What are your top strategic objectives for the next few years and how are those changing over time?
- What are your greatest obstacles or challenges? What are you proudest of?
- What's your understanding of sustainability and if and how it matters?
- How do you pick and prioritize sustainability issues for action? Do you collaborate with others? On What issues?
- What issues are you concerned about most and how is your understanding of those issues evolving?



# Questions to ask - internally

- What are your top strategic objectives for the next few years and how are those changing over time?
- What are your greatest obstacles or challenges? What are you proudest of?
- What's your understanding of sustainability and if and how it matters?
- How well do you think the company is addressing issues – what are they missing – what do we need to stop, start, or continue doing?
- What issues (from a provided list) need to be managed really well in order for you to meet your business objectives?



# Materiality Assessment Tasks

- **Internal sustainability education and awareness**
- **Getting the internal and external perspectives**
  - Desktop research and benchmarking on targeted issues
  - Internal one-on-one dialogues
    - Key strategic objectives and challenges and how those are changing over time
    - Knowledge of and concern for relevant HSE issues, potential risk and opportunities, and issue management
    - Feedback on issue prioritization and future, high-value engagement options
- **Analysis and reporting**

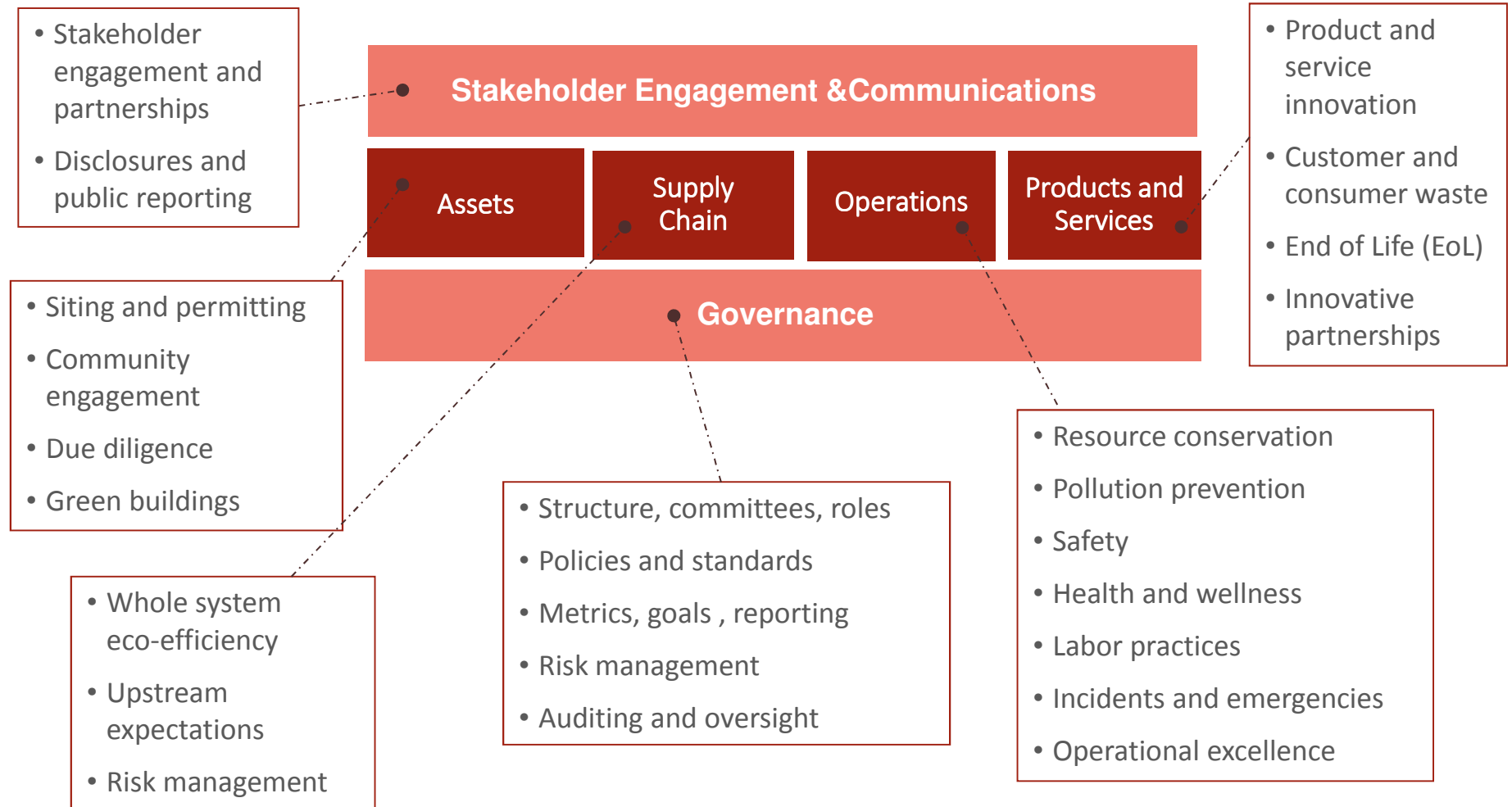
# Post Materiality Assessment Planning


## Where are we and where do we want to be?

**Determine ambition.**  
**Where are we and where do we want to be on these issues?**

- What is expected performance or achievement at that ambition level and what is the business case for being there?
- How does an organization engage at that level and with whom?
- What would success look like?
- What programs and partnerships do we need to:
  - Develop
  - Evolve
  - Delete or deemphasize

# Value Chain Wide Approach





# **Materiality & Notable Examples**



# Water, Materiality & Coca-Cola

## Financial (10-K Reporting)

- **2002**  
Water is not listed as a “raw material” (high fructose corn syrup is noted as its “principal raw material) and water risk is not addressed
- **2009**  
In the Risk Factors section, water faces “...unprecedented challenges from overexploitation, increasing pollution, poor management and climate change....may incur increasing production costs or face capacity constraints which could adversely impact our profitability....”

## Meanwhile

- **2004 – Plant Trouble**  
Local officials shut down plant in Kerala, India; residents claim Coke is overexploiting groundwater. In later years, other planned plants are abandoned after local protests.
- **2007 – Water Neutrality**  
Coke establishes a goal to give back to the planet a quantity of water equal to that it uses by 2020
- **2016**  
Achieves its goal five years early. Is still criticized for its local impacts.

# Transparency & Supply Chains

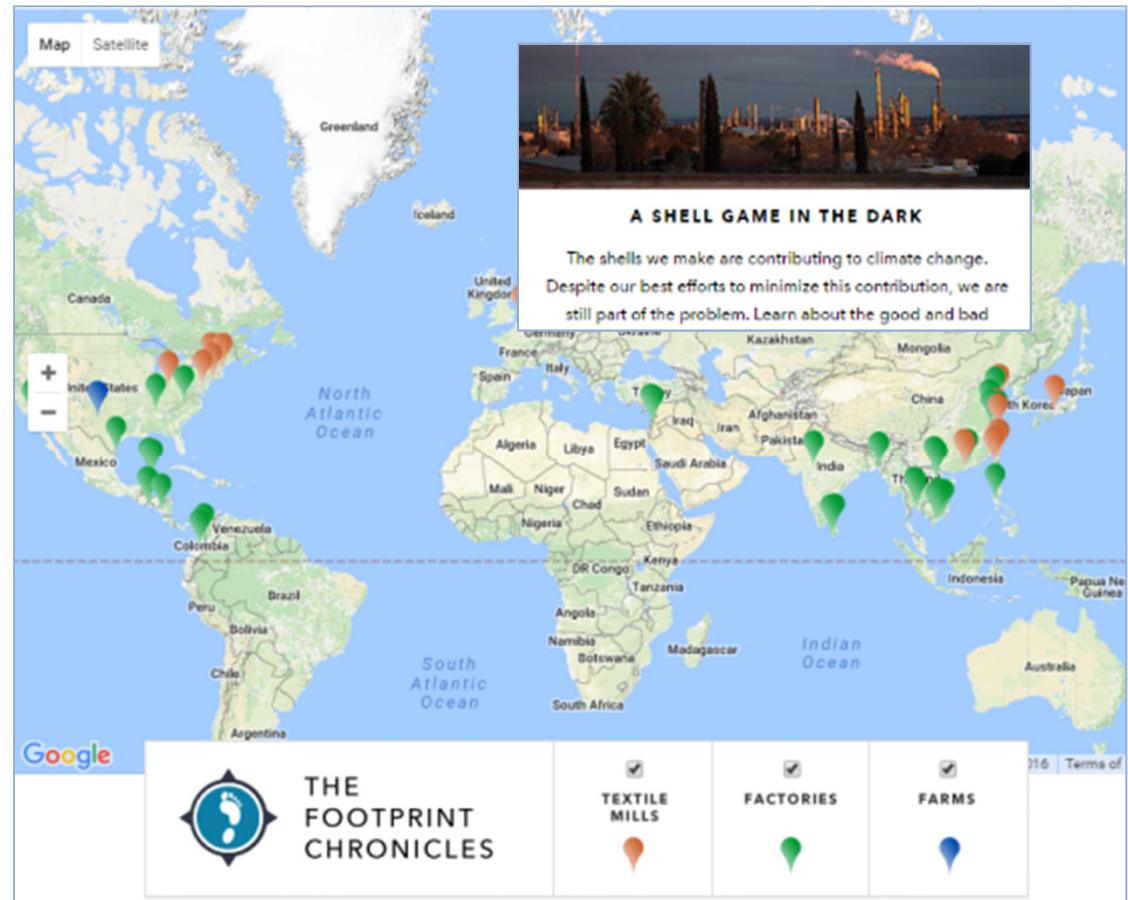
**patagonia**

our mission to cause no unnecessary harm to every area where Patagonia has influence. That way, as Patagonia grows in size, our efforts to meet the challenge of our mission can be amplified exponentially.



## ORGANIC COTTON: GROWN IN THE USA

Founding members of the Texas Organic Cotton Marketing Cooperative remember what it was like to take the risk to go organic almost two decades ago, while newer members look ahead at the future of organic cotton.



# Food & Mission Aligned Engagement



- 10 year, \$10M initiative to reduce childhood obesity in Camden by 50%
- Partners include The Food Trust, Food Bank of South Jersey, Camden YMCA, Camden Coalition of Healthcare providers, US Soccer Foundation, NJ Partnership for Healthy Kids
- Expanding Henry County, OH and Snohomish County, WA

- We believe in the **power of food** to connect people.
- We believe that food can be good, delicious, and accessible — all three, **without compromise**.
- And we believe we have a **duty to give back** and invest in the future — a duty to protect the Earth; a duty to support our communities; and a duty to the people who bring their talents through our doors each day. These are as important as generating returns to our shareholders.



# Food & Mission Aligned Engagement

The water and carbon intensity of food animal production challenges its sustainability. The use and environmental impacts of antibiotics are also a concern for food animal producers.



By 2050, you'll have 9,700,000,000 neighbors.

Adding nearly three billion people to the global population in the next three decades presents a serious challenge: how can we produce more food without using more resources? If we don't act soon, we'll lose the battle for a food-secure world—and we need a frank and honest conversation about how we can change that.



# Take Aways...

- Understand the full scope of “sustainability” and the relative materiality of key issues
- Don’t assume ANYTHING – your stakeholder should tell you what’s important and why
- Engaging internally is just as important as engaging externally
- Don’t allow your critics to understand your life cycle impacts better than you do
- If you don’t understand the business value of sustainability you may not really understand its scope and how its changing expectations on business - fast